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Harvey Woods

JOCKEY®

HARVEY WOODS LIMITED

ANNUAL REPORT 1974

REGISTERED TRADE MARKS

Harvey Woods

Quality hosiery and underwear for all the family and every occasion. Fashion and comfort is featured by these brands:

Kroy wool, hosiery and underwear, luxurious quality with easy care.

HW 420 underwear featuring the quality of combed cotton fortified with 420 nylon for longer wear.

Fall and winter underwear: A complete collection of chill chasers in blends and cottons, thermals and ribs.

JOCKEY®

World famous for quality, fit and comfort. **JOCKEY** sets the trend in fashion underwear and sportswear.

JOCKEY, Fits better . . . . Looks better , . . . Feels better.

STERI-SEPTIC

STERI-SEPTIC is the trademark for a family of chemical formulations designed to control the growth of odour producing and degradative bacteria and fungi.

All Harvey Woods and Jockey underwear and hosiery products are **STERI-SEPTIC** treated and thus remain pleasantly fresh during wear and last longer.

kroy*

Woolen products bearing the **KROY** trademark are completely machine washable and machine dryable.

Since **KROY** processed products remain stitch-free, do not mat or felt, they fit better and have a longer wear life.

TO THE SHAREHOLDERS

We have pleasure in submitting the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1974.

Earnings

Net Income for 1974 of $698,000 compares with Net Income of $343,000 for 1973, after provision for depreciation of $221,000 in 1974 and $160,000 in 1973. Your attention is drawn to Note 6 to the Consolidated Financial Statements as to income taxes payable.

1974 Operations

Improved earnings of 1974 in large measure reflect the increased efficiency of operations, resulting from programmes initiated in 1972 and 1973, together with adjustments in selling prices of our products. Sales in terms of dollars were 21% higher than in 1973. The improvement was achieved in spite of higher costs of materials, labour, and general expenses. It should be noted that 1974 was a year in which raw material prices were extremely volatile due to the problems of inadequate supply and worldwide demand.

1975 Prospects

Shipments to date in dollars are ahead of 1974 and continued sales improvement is expected from our reorganized sales divisions even though retailers appear reluctant to commit ahead under present economic conditions. Our ability to produce quality garments in both fashion and basic styles at competitive prices will enable us to take advantage of any such improvement through the distribution of the Jockey and Harvey Woods national brands across Canada.

Although there has been a levelling off of raw material costs, there is evidence of pressures for higher costs of these and other elements of expense. It is our objective to further improve the company's efficiency and profitability through continuing studies and implementation of new programmes.

Imports have already caused serious disruptions in certain sectors of the Textile Industry. The extent to which low-priced imports will affect the company's product lines, particularly men's hosiery, is not yet clear.

Long Term Debt

Details of the refinancing of the company's long term debt are outlined in the notes to the Consolidated Financial Statements.

Working Capital

Working Capital increased $588,000 in the year and at December 31, 1974 stood at $2,967,000. The statement entitled "Changes in Financial Position" details the source and application of funds.

Subsidiaries

Thomson Research Associates Limited experienced a decline in sales and earnings in 1974, primarily as a result of reduced exports to the United Kingdom and United States. New agents appointed in the United Kingdom in late 1974 have improved the situation there. Increased sales to the United States are not expected until economic conditions improve in that country.

Kroy Unshrinkable Wools Limited has developed a new machine to more efficiently shrinkproof wool and initial plant trials have proven very satisfactory. The commercial advantages of this new equipment are such that both domestic and foreign licensing arrangements should be negotiated during the latter part of this year.

The Federal Government has continued its support of the subsidiary companies' research projects through their I.R.A.P. and P.A.I.T. programmes.

Change in Share Capital

With this report you will receive material as to proposed changes in the capital structure of the company. The Board of Directors considers that such changes should in the long term be a real advantage to the company and its shareholders and recommends that they be approved.

General

Again in 1974, Harvey Woods' employees contributed greatly to the company's performance. On behalf of the Board of Directors, we would like to express our appreciation to all Harvey Woods' employees for their support and co-operation.

On Behalf of the Board of Directors

J. D. Woods, Chairman.

R. W. Meeke, President.

Toronto, Ontario.
April 18, 1975.

Harvey Woods Limited
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidate

DECEMBER 31, 1974 (with com

Assets

		1974	1973
		in thousands of dollars	
Current	Cash	$ 2	$ 4
	Accounts receivable	1,896	1,963
	Inventories (note 2)	4,932	4,476
	Prepaid expenses	115	127
	Total current assets	6,945	6,570
Fixed-at Cost	Land	40	40
	Buildings	1,046	946
	Equipment	3,358	3,118
		4,444	4,104
	Less accumulated depreciation	3,192	3,095
	Total fixed assets	1,252	1,009
Total		$8,197	$7,579

On behalf of the Board Roland W. Meeke, Director — John A. Young, Director

(see accompanying notes)

Balance Sheet

tive amounts at December 31, 1973)

Liabilities

		in thousands of dollars 1974	1973
Current	Due to bankers - demand loan (note 3)	$2,471	$2,716
	Accounts payable and accrued charges	1,251	1,141
	Sales and other taxes payable	70	161
	Portion of long term debt due within one year	186	173
	Total current liabilities	3,978	4,191
Long Term	Due to bankers - term loans (note 3)	942	706
	8½% first mortgage bonds, due July 15, 1981 (note 4)	227	262
	8½% second mortgage bonds, due July 15, 1981 (note 4)	390	432
	Other	3	14
		1,562	1,414
	Less payments due within one year included with current liabilities	186	173
	Total long term liabilities	1,376	1,241
	Deferred taxes	4	4
	Minority shareholders' interest	14	16
Shareholders' equity	Capital (note 5)		
	Authorized:		
	500,000 Class A shares of no par value entitled to a fixed cumulative preferential dividend of 40¢ per share per annum		
	700,000 Class B shares of no par value		
	Issued and fully paid:		
	329,512 Class A shares 700,000 Class B shares	1,938	1,938
	Retained earnings (statement 2)	887	189
		2,825	2,127
Total		$8,197	$7,579

AUDITORS' REPORT
To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
February 14, 1975.

CLARKSON, GORDON & CO.
Chartered Accountants.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1974 (with comparative amounts for 1973)

	in thousands of dollars	
	1974	1973
Sales	$13,280	$10,986
Costs and expenses:		
Cost of sales (excluding depreciation and amortization)	9,346	7,964
Marketing, general administration and shipping expenses	2,481	2,130
Depreciation and amoritzation	221	160
Interest - long term debt	154	121
- other	374	247
	12,576	10,622
Net income before minority interest, income taxes, and extraordinary item	704	364
Minority interest in income of subsidiary company	3	8
Income before income taxes and extraordinary item	701	356
Income taxes (note 6)	300	143
Income before extraordinary item	401	213
Extraordinary item:		
Reduction in current year's income taxes, resulting from application of prior years' losses	297	130
Net income	$ 698	$ 343
Income per Class "B" shares before extraordinary item after allocating annual cumulative dividends in respect to 1974 to Class "A" shares (note 5)	$.38	$.12
Income per Class "B" shares after extraordinary item after allocating annual cumulative dividends in respect to 1974 to Class "A" shares (note 5)	$.81	$.30

(See accompanying notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1974 (with comparative amounts for 1973)

	in thousands of dollars 1974	1973
Balance, beginning of year (at debit)	$189	$(154)
Net income	698	343
Balance, end of year	$887	$ 189

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1974 (with comparative amounts for 1973)

	in thousands of dollars 1974	1973
Source of working capital:		
Operations	$ 919	$ 502
Increase in long term debt	321	
	1,240	502
Application of working capital:		
Purchase of fixed assets (net)	464	91
Payment of long term debt	173	85
Increase (decrease) in portion of long term debt due within one year	13	(618)
Decrease (increase) in minority interest in subsidiary company	2	(1)
	652	(443)
Increase in working capital	588	945
Working capital, beginning of year	2,379	1,434
Working capital, end of year	$2,967	$2,379

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and all material subsidiaries' intercompany accounts and transactions have been eliminated.

(b) Inventories

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual costs on a first-in, first-out basis. Market is based upon estimated net realizable value.

(c) Fixed Assets

Fixed assets are stated at historical cost. Depreciation is provided on a diminishing balance basis at rates which amortize the cost over their estimated useful life, as follows:

Buildings	- 5%
Equipment	- 20%

2. Inventories

	1974	1973
Finished goods	$2,952,000	$2,457,000
Work in process	888,000	1,017,000
Raw material and supplies	1,092,000	1,002,000
	$4,932,000	$4,476,000

3. Bank Indebtedness

As security for bank indebtedness, the company has given to its bankers an assignment of accounts receivable, security under Section 88 of the Bank Act and demand debentures totalling $4,500,000, which are secured by fixed and floating charges. At December 31, 1974 bank indebtedness consisted of a demand loan of $2,470,600 and three term loans in the aggregate amount of $942,280. The interest rates and repayment terms of the term notes are as follows:

(i) $621,280 - bearing interest at a rate of 1½% above the bank's prime rate, repayable in 100 equal monthly principal instalments of $7,060 beginning January 1974, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB).

(ii) $160,500 - bearing interest at a rate of 1½% above the bank's prime rate, repayable in 100 equal monthly principal instalments of $1,605 beginning February 1975, insured by GAAB as to repayment to the extent of 90% and secured by a chattel mortgage on certain equipment.

(iii) $160,500 - bearing interest at a rate of 10%, not repayable until the other term loans have been fully repaid.

4. *Long Term Debt*

In addition to term bank loans described in note 3, the long term debt of the company consists of the following:

(i) $227,100 - First mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets. The bonds bear interest at 8½% per annum payable monthly and the loan is repayable by monthly instalments of $2,900.

(ii) $389,789 - A loan made to the company by the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets. This loan, which matures on July 15, 1981, bears interest at 8½% and is repayable by monthly blended payments of principal and interest of approximately $6,400.

The security for the company's demand debentures, referred to in note 3 above, ranks subsequent to the security given in connection with the debt described in this note.

5. *Dividends*

Cumulative dividends on Class A shares of $7.80 per share ($2,570,194 in the aggregate) are in arrears.

The charter of the company restricts the payment of dividends on Class B shares if there are arrears of dividends on the Class A shares.

6. *Income Taxes*

Taxes on income for the year ended December 31, 1974 in the amount of $300,000 have been reduced by $297,000 by the application of losses incurred in previous years.

At December 31, 1974 losses in the amount of $175,000 are available for carry forward purposes to reduce income taxes otherwise payable until 1977. In addition, the company has available approximately $440,000 representing depreciation written in the accounts but not claimed for tax purposes for which there is no limitation on the carry forward period. Potential income tax recoveries are not reflected in the statements.

7. *Remuneration of Directors and Senior Officers*

Aggregate direct remuneration paid by the companies during 1974 to directors and senior officers as defined by Section 1(25) of The Business Corporation Act, 1970 amounted to $233,000 (1973 - $185,000).

HARVEY WOODS LIMITED
FIVE YEAR FINANCIAL REVIEW

in thousands of dollars

	1974	1973	1972	1971	1970
Operating results:					
Sales	$13,280	$10,986	$10,867	$11,349	$9,702
Income (loss) before extraordinary items	401	213	(261)	(192)	(549)
Net income (loss)	698	343	(261)	(192)	(549)
Financial position:					
Working capital	2,967	2,379	1,434	2,146	2,408
Total assets	8,197	7,579	7,062	7,089	7,531
Long term debt	1,562	1,414	1,499	1,602	1,768
Shareholders' equity	2,825	2,127	1,784	2,045	2,237
Capital expenditures	464	91	108	71	367
Per Class "B" share (after allocating annual cumulative dividend (40¢) for the year in respect to Class "A" shares - see footnote):					
Income (loss) - before extraordinary items	.38	.12	(.56)	(.46)	(.97)
- after extraordinary items	.81	.30	(.56)	(.46)	(.97)

Footnote: As indicated in note 5 to the Consolidated Financial Statements, cumulative dividends on Class "A" shares of $7.80 per share ($2,570,194 in the aggregate) are in arrears.

Harvey Woods

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DIRECTORS	W. D. Bean G. D. Birks N. H. Cruickshank R. W. Meeke J. W. Walker Q.C. J. D. Woods John A. Young
OFFICERS	J. D. Woods *Chairman of the Board* R. W. Meeke *President* John A. Young *Vice President and Secretary-Treasurer*
HEAD OFFICE	18 Vansittart Avenue, Woodstock, Ontario
SALES EXECUTIVE OFFICES	Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario
TRANSFER AGENTS	The Royal Trust Company
AUDITORS	Clarkson, Gordon & Co.
BANKERS	The Toronto-Dominion Bank
COUNSEL	McCarthy & McCarthy
OPERATING LOCATIONS	Toronto: *Kroy Unshrinkable Wools Limited* *Thomson Research Associates Limited* Woodstock: *Hosiery Division, Underwear Division,*
BRANCH SALES OFFICES	Vancouver ▪ Edmonton ▪ Winnipeg ▪ Toronto ▪ Montreal ▪ Quebec
PRODUCTS	Hosiery ▪ Underwear ▪ Lingerie ▪ Sweaters ▪ Sportswear

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